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04 MAR 1982

MEMORANDUM FOR: Deputy Director of Security, PTAS

VIA: Chief of Operations, PTAS  
Chief, Physical Security Division  
Chief, Industrial Security Branch

FROM: [REDACTED]  
Industrial Security Branch

SUBJECT: Recommendation Regarding the Handling of  
Residual Classified Material Received or  
Generated Under Contract With an Industrial  
Facility (U)

1. During the course of comprehensive industrial facility security audits the finding of unauthorized retention of residual classified materials occurs with significant frequency and is viewed as a matter of major security concern. It would appear that in some cases the residual material is forgotten or ignored and, in other cases, the contractor's facility serves as a convenient place to store classified material pending an indefinitely postponed decision as to the final disposition of the material; and still in other cases, the residual material serves as a library for contractor reference material. (U)

2. With reoccurring frequency, the audit reports contain the following recommendations which are taken verbatim from Section 11, page 18, of the manual, Standard Security Procedures for Contractors, dated 1 May 1979, and which manual is incorporated by reference into Agency-funded contracts.

"b. Upon final financial settlement of a contract, the Contracting Officer, in coordination with the Contracting Officer's Security Representative, will determine what classified material provided by and/or due the Customer shall be returned to the Customer or destroyed with no record retained other than an appropriate notation in the mail and document log. The Contractor may retain indefinitely all unclassified non-technical material, such as contracts, accounts receivable, time and material charges, shipping records, etc.

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WARNING NOTICE  
INTELLIGENCE SOURCES  
AND METHODS INVOLVED

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c. In case retention of classified material is desired, the Contractor will request written approval from the Contracting Officer. The action taken must be recorded in the mail and document log. All classified documents and material remaining in the Contractor's possession after final settlement of a contract will continue to be segregated and properly safeguarded." (C)

3. During the closing or settlement phase of the contract, the Contracting Officer prepares a memorandum (see attachment) which states that certain conditions must be met or action taken before final payment will be made. It will be noted that no mention is made of any security requirements. (U)

4. To facilitate document accountability, it is recommended that the Office of Security request of the Office of Logistics that the settlement memorandum (see attachment) be amended to require a list of all classified documents received or generated under the contract that are held by the contractor. (U)

5. While the above applies to Office of Logistics contracts, the unauthorized and unnecessary retention of residual material exists within OD&E Special Project contracts as well; and a solution similar to the one recommended above could also be applied to those contracts. (U)

Attachment



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R E G I S T E R E D

Subject : Contract No.

Gentlemen:

The purpose of this letter is to facilitate the completion of the terms of the subject contractual document.

Final payment and release cannot be made until the following information is received:

FINAL PROPERTY STATEMENT

FINAL PATENT & ROYALTY STATEMENT

CUMULATIVE COST CLAIM & RECONCILIATION STATEMENT

It is requested that this information be submitted as soon as possible. If for any reason this cannot be done, the undersigned should be notified immediately, setting forth the reason for any additional time required.

Very truly yours,

Contracting Officer

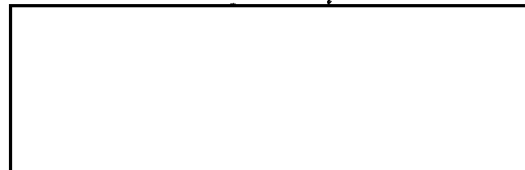
25 February 1981

MEMORANDUM FOR: Chief, Security Staff  
Office of Logistics

STAT FROM   
Chief, Industrial Security Branch

*Got,*

It is suggested that the attached audit report be considered informational and not forwarded. There has been no active work at this facility for many months preceding the audit and the results are of little or no current concern. The effort will hopefully be of value should future contracts develop and the report was prepared with that in mind. *Shank,*



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